BEFORE THE MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

REPORT ON THE ACTIVITIES OF FITCHBURG GAS AND ELECTRIC LIGHT COMPANY TO MITIGATE TRANSITION COSTS

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I. INTRODUCTION

This Report responds to the Massachusetts Department of Telecommunications and Energy's ("the Department's") directive for the Massachusetts electric distribution companies to provide detailed descriptions of past, present and future mitigation efforts that have been or maybe undertaken to reduce transition costs and ease the burden on ratepayers resulting from volatile fuel prices. The Electric Restructuring Act of 1997 ("the Act"), St. 1997, ch. 164, required electric companies to mitigate recoverable transition costs prior to approval of such recovery. Under the Act, recovery of transition costs is predicated upon the Department issuing an order finding that an electric company had taken all reasonable steps to mitigate to the maximum extent possible the total amount of transition costs that will be recovered and to minimize the impact of recovery of such transition cost on ratepayers.[(1)]

Before and after passage of the Act, Fitchburg Gas and Electric Light Company ("FG&E" or "the Company") has undertaken a variety of initiatives to mitigate its power supply and transition costs. These mitigation efforts are evidenced by the Department's repeated reviews and approvals of the Company's mitigation activities.[(2)] The Company has also undertaken a variety of actions to reduce its costs and the costs of providing service to its customers. Through initiatives associated with the Low Income Assistance Program, the Budget Billing Plan, Energy Efficiency Programs, and the Energy Bank, FG&E has attempted to ease the burdens on its customers arising from fluctuating energy prices.

The Report begins with a brief history and overview of FG&E's power supply and structure. The Report then addresses actions FG&E has taken to mitigate its transition costs, including:

- divestiture of non-nuclear generating facilities (Section III)

- divestiture of nuclear generating facilities (Section III)

- renegotiations, buyouts and adjustments to commitments for purchased power (Section II E and III)

• sale of assets unrelated to the provision of transmission or distribution service, and (Section III)

• other steps taken to mitigate transition costs and ease burden on ratepayers (Section III and IV)

The Report also addresses ongoing and future mitigation efforts FG&E has considered, and may pursue, including:

• securitization and financing alternatives (Section IV)

• litigation claims (Section IV)

• adjustments to recovery schedules, (Section IV)

• other actions to reduce burdens on customers, including

a. assistance for low income residential customers (Section IV)

b. energy efficiency programs (Section IV)

c. budget billing and consumer payment plans (Section IV)

d. consumer education (Section IV)

The Report concludes with a discussion of the applicability of the Ratepayer Parity Trust Fund (Section V).

II. BACKGROUND

A. Corporate Structure

The Company was originally incorporated under Chapter 208 of the Acts of 1852 as Fitchburg Gas Company for the purpose of manufacturing and selling gas within Massachusetts. Today, FG&E is a combination gas and electric distribution company serving approximately 26,000 electric customers and 15,000 gas customers in the communities of Fitchburg, Luneburg, Townsend and Ashby. Prior to 1992, FG&E was a stand-alone corporate entity that was unaffiliated with any other public utility or holding company. In 1992, following review by the Department, FG&E was merged with and into Unitil Corporation, a public utility holding company that also owns New Hampshire electric utility affiliates Concord Electric Company, Exeter & Hampton Electric Company, and Unitil Power Corp. The Department approved the Company's merger with Unitil pursuant to a settlement agreement with the Attorney General, finding that such transaction was consistent with the public interest.[(3)]

B. Resource Portfolio

Prior to restructuring, FG&E acquired and managed a portfolio of generation resources to serve its customers electric demand. This supply portfolio was comprised of a diverse mix of joint owned units, purchase power entitlements, and a leased peaking turbine, with a variety of fuel sources including nuclear, oil and oil/gas fired units, hydro, and wood. These resources were acquired over time through an integrated resource planning process designed to provide a reliable, secure and diverse power supply to satisfy the Company's total customer load requirements at the lowest available cost over the planning horizon.

Both before and after restructuring neither FG&E nor its affiliates have been engaged in the ownership *and* operation of electric generation facilities. Thus, even prior to passage of the Act, FG&E was organized as a distribution company which managed a power supply portfolio. Because FG&E was not engaged in the ownership and operation of generating units, it did not have extensive personnel, equipment and property associated with such operations. Accordingly, its mitigation activities have focused primarily upon divestiture of its purchased power agreements and non-operating ownership interest in generation units that are jointly owned with other New England utilities joint-owned units.

In 1997, FG&E's power supply portfolio, and the source of its transition costs, included minority ownership shares in the Millstone III nuclear generating unit (2.5 MW), the Wyman Unit #4 (1.13 MW) and the New Haven Harbor Station (20.12 MW) fossil fuel units. The other major source of FG&E's transition costs was its contractual obligations under long-term supply agreements with Pinetree Power (formerly Kenetech Energy Development Service (14 MW)), Linweave Hyrdo (3 MW), Public Service Company of New Hampshire (15 MW) , and Hydro Quebec (5.23 MW).[(4)] FG&E entered into its purchased power commitments between 1987 and 1992 pursuant to the Department's rules and procedures for procurement of power supplies and integrated resource management ("IRM"). Each of those long-term contracts, and the Company's process for soliciting and acquiring these power supplies, were reviewed and approved by the Department.[(5)]

FG&E's resource portfolio also contained short-term purchases to meet the requirements of the Company's customers. These short-term purchases were acquired in the competitive market to satisfy Company requirements and optimize portfolio energy costs. Following the Company's last long term power supply acquisition under the Department's IRM procedures the Company was able to avoid any additional long-term commitments, allowing the Company to meet increases in customer requirements with lower cost, short-term market resources.[(6)] This strategy mitigated the Company's total power supply costs prior to restructuring because those purchases were generally made in a market with excess supply and depressed prices.

C. Seabrook Investment

In 1987, the Department approved the Company's write-off of a portion of its net investment in Seabrook Units 1 and 2, pursuant to a settlement with the Attorney General that governed the rate recovery associated with that investment.[(7)] Under the Department's order approving the settlement, the Company was permitted to recover a portion of its investment over a period of 32 years. During the first two years of the amortization, FG&E was allowed to recover 55 percent of its net investment in Seabrook Unit 2, with no carrying charges over the amortization period. FG&E wrote off 45 percent. Over the following thirty years, FG&E was permitted to recover 60 percent of its net investment in Seabrook Unit 1, with carrying charges of 14 percent permitted on the averaged unamortized balance. FG&E wrote off 40 percent. Under the settlement FG&E also agreed not to participate in further building, financing or investment in the Seabrook project.

The rate recovery mechanism associated with that settlement and the remaining ratepayer obligations is now known as the Seabrook Amortization Surcharge, or SAS.[(8)] The surcharge is placed on distribution rates as a per kilowatt-hour charge billed and, pursuant to the settlement, will be collected until the amortization reaches zero.

D. Easing Customer Burdens

FG&E's efforts to mitigate its transition cost, and ease the burden of fluctuating energy prices on its customers, should be evaluated in the context of its efforts to control costs and manage rates over the past decade. The Company has managed its costs and succeeded in avoiding a base rate increase for its electric division for over 15 years. During the 10 years prior to restructuring (1988-1998), the typical bill for an FG&E residential customer using 500 kilowatt hours per month decreased by 1% over the 10 year period. In contrast, residential electric customers of every other utility in the Commonwealth experienced increases in the electric bills of 8 to 39% over the same period. In 1993, FG&E provided its customers with a voluntary rate decrease to reflect savings from a financing, which rate reduction was reviewed and approved by the Department.[(9)]

Prior to 1998, FG&E also actively sought to promote economic growth and retain customers through a number of special initiatives. For example, in 1995 FG&E proposed, and the Department approved, a service known as Energy Bank which provided industrial customers with energy at market-based prices.[(10)] The program was made available to new or expanding customers with loads of at least 200 kilowatts in FG&E's service territory.

The Energy Bank program provided a number of benefits to existing customers, including cost mitigation. By encouraging industrial companies to relocate or expand existing operations in the City of Fitchburg and its environs, the Energy Bank was designed to promote a healthier and more prosperous local economy. Power costs to all existing customers were reduced as Energy Bank revenues offset some costs previously carried by all customers.

E. Past Mitigation Activities

Prior to restructuring, as part of its on-going management of its resource portfolio, FG&E actively pursued initiatives to mitigate costs on specific power contracts and joint-owned generation units. The Company reported on these activities in its 1997 Restructuring Plan, including the following:

1. In the mid '90's, FG&E aggressively pursued contract enforcement efforts with a supplier under a long-term agreement. The Company was concerned that the supplier was

not fully meeting the terms of its contract which, among other things, contemplated the burning of clean wood waste exclusively. There had been reports of operating problems due to fuel supply irregularities. The Company was unable to find grounds to terminate or otherwise amend the contract, but the supplier did, in response to the Company's efforts, revise and improve their fuel procurement practices. There were no subsequent reports of similar problems with fuel supply.

2. In 1995-1996, FG&E, working in conjunction with a supplier, undertook to sell a portion of FG&E's entitlements under that contract to another New England utility. This sale ultimately proved unsuccessful, but as a follow-up FG&E did file for and obtain approval from FERC for a transmission tariff for sale of the supplier's load off its system, thus providing an opportunity to mitigate costs.

3. FG&E monitored the performance of joint-owned units and attended owner meetings to maintain an awareness of the on-going cost efficiency efforts. These efforts included reorganizing operations and realigning personnel to streamline work processes and reduce costs.

4. FG&E aggressively pursued its legal rights with respect to its 2.5 MW ownership interest in Millstone Unit 3. This effort involved working extensively with the other joint owners, specifically the non-operating joint owners, toward the mutual goal of optimizing the value of the asset. In August 1997, the non-operating joint owners filed a demand for arbitration and legal action regarding Millstone 3 performance. This action eventually led to a settlement and sale of the Unit, as more fully described in Section III.

F. Compliance with the Restructuring Requirements

In November of 1997, the General Court promulgated the Act, with the intent of restructuring the electric industry in order to bring the benefits of retail competition to consumers in the Commonwealth. As part of the Act, electric companies in the Commonwealth were required to file Restructuring Plans, to the extent they had not already done so, before January 1, 1998. FG&E filed a Restructuring Plan consistent with the Act's requirements on December 31, 1997.[(11)]

The Restructuring Plan complied with each of the goals set forth in the Act. According to the Act, each Restructuring Plan had to succeed in implementing the two paramount policy features of the legislation: (1) to provide a rate reduction of 10 percent for customers choosing the standard offer service and (2) to provide each customer with the opportunity for retail access as of March 1998. The Department augmented these policy dictates with other sections of the Act: to provide an estimate and detailed accounting of total transition cost eligible for recovery pursuant to the Restructuring Act; to describe the strategy to mitigate transition cost; to unbundle prices for generation, distribution and transmission and other services; to provide programs to undertake universal service considerations; to provide programs for energy conservation and demand-side management; to provide procedures for ensuring direct retail access to competitive electricity suppliers; and to provide a plan to accommodate the needs of potentially displaced employees and impacts on the communities served.

FG&E's Restructuring Plan ("the Plan") provided for a 10 percent rate decrease in March 1998, followed by a 15 percent rate decrease in September 1999. The Plan also included a description of its mitigation strategy through asset and power supply divestiture. The Plan set up FG&E's transition cost recovery mechanism to recover only lawful and permissible transition costs, and to net out revenues received and proceeds generated through the sale of those assets and entitlements. The Plan also ensured that its obligations with regard to the Company's joint-owned nuclear asset was insulated and funded, and that decommissioning funding associated with that asset would remain intact for safety and public policy reasons.

The Plan included in its transition cost calculation those regulatory assets that were sanctioned by the Act, regulatory policy and the Constitution. The Plan appropriately calculated the initial level of transition cost associated with its power purchase portfolio. Finally, the Plan included the creation of Standard Offer Service, Default Service and the availability of retail access with unbundled charges delineating generation, transmission and distribution costs.

FG&E's Restructuring Plan was given initial approval in March 1998, and awarded final approval, with modifications implemented immediately by the Company, in January 1999.

G. Arthur Anderson Audit

The Act required the Department to conduct a formal audit of the transition costs approved for recovery. The Department engaged Arthur Anderson to conduct the audit of FG&E. From November 1998 through December 1998, the Arthur Anderson audit team conducted its audit of FG&E's transition costs pursuant to generally-accepted auditing standards applying generally accepted accounting principles and testing the information controls of the Company. At the conclusion of the audit, Arthur Anderson issued a report finding that there were both under and overstatement of costs in certain accounts.[(12)] FG&E implemented each of the recommendations made by Arthur Andersen in its report to the Department, resulting in an approximately $2 million decrease in its stated transition costs.

III. MITIGATION ACTIVITIES 1998-2000

Since approval of its Restructuring Plan, FG&E has been actively engaged in pursuing the implementation of restructuring its operations in conformance with the Act. The key activity identified by both the Department and the General Court for mitigating the costs associated with restructuring was the divestiture of generation assets. Divestiture was deemed necessary to determine the market price for the generation assets and thus establish the appropriate level of stranded cost recovery. Divestiture was also identified as critical to ensuring a market structure that would encourage and vitalize the nascent wholesale power markets. Pursuant to FG&E's Restructuring Plan and the Act, the proceeds of the divestitures of its generation assets flow back to FG&E's customers as an offset to the fixed component of the transition charge in equal annual amounts over the period commencing on the date that the residual value credit was implemented until December 31, 2009.

A. Divestiture Plan and Implementation

As part of its Restructuring Plan, approved by the Department on January 15, 1999 in Docket D.P.U./D.T.E. 97-115/98-120, FG&E agreed to divest its entire power supply portfolio, including power supply agreements and joint-owned generation units, to the extent it was able to do so in a manner beneficial to its customers.[(13)] In advance of its restructuring, the Company had undertaken aggressive mitigation measures in relation to its portfolio, such as making short term purchases of power (rather than entering into long term supply contracts) and ensuring that the joint-owned units were operated in the most efficient and cost effective manner. Early on, FG&E recognized that subjecting its portfolio to a full market test for valuation was the best way to ensure full mitigation of the Company's transition cost.

Accordingly, FG&E promulgated a Divestiture Plan designed to generate the highest level of interest for its assets and power entitlements. The Plan included identifying the maximum number of bidders interested in a portfolio the size of FG&E's; allowing those bidders to review all pertinent information related to the portfolio and bid a price that they would pay to, or receive from the Company, in order to relieve the Company (and its ratepayers) from the interest. In its Plan, the Company envisioned that the result of this competitive process would maximize both prices and mitigation of transition cost. The competitive bidding process was designed to identify bidders with unique capabilities and business interests to bring value to the segments of the portfolio auctioned by FG&E. The timing of the auction was intended to facilitate wholesale entry into New England electric market at the time that retail markets in New England were expected to open to retail access.

Initially, FG&E assembled a divestiture team to formulate the bidding process and the initial conceptual framework of a bidding design. A core tenet of the group's mandate was to design and implement a failsafe manner by which bidders would have open, uninhibited and non-discriminatory access to all relevant data and bid information.[(14)] The bid solicitations and information packets were sent out in January 1998 under the auspices of Stone & Webster, who was hired to manage the early process and provide confidentiality of bidder information. As part of determining whether a potential bidder would be permitted to participate in the auction, the process required the submission of a statement of qualifications including a demonstration of financial viability. The bidders each had to sign confidentiality agreements agreeing to maintain the integrity of market-sensitive information received during the bid process. The Company then evaluated bids, created a short list of bidders, and began negotiating to determine the winning bidder.

The Plan was reviewed by the Department in full, subject to the scrutiny and investigation of the Attorney General and ultimately approved for implementation as part of the Company's Restructuring Plan.[(15)]

B. Sale of New Haven Harbor Station

Pursuant to the methodology described above, FG&E divested of its 4.5 % ownership share of New Haven Harbor Station to the United Illuminating Company, and ultimately to Wisvest-Connecticut, L.L.C. in April 1999. To begin the divestiture process, the Company issued a notice to 375 prospective bidders that the auction had commenced. FG&E issued press releases and posted relevant announcements on the internet and at Unitil's website. While FG&E stated a preference at the time for a single purchaser for its entire nuclear, non-nuclear and entitlements portfolio, it acknowledged that it would entertain bids for discrete portfolio segments.

The Company received letters of interest from 18 potential bidders, who executed confidentiality agreements and received the Company's Offering Memorandum. FG&E, with the assistance of Stone & Webster, established a data room for open, uninhibited and nondiscriminatory access to all relevant information. From this process, FG&E permitted bidders to submit non-binding bids; based on those bids, a single bidder emerged. The single bidder was invited to participate in the final bidding process, and confidential negotiations began. Concurrently, FG&E and United Illuminating Company of Connecticut, the majority owner of New Haven Harbor Station, were negotiating the sale of New Haven Harbor to UI, at which time UI would transfer the interest to the winner of its divestiture bid. The price terms and conditions received from UI were superior, in the last analysis, than the benchmark established by the final competitive bidder in the auction process.

The sale of New Haven Harbor used an appropriate confidential, competitive process that maximized the proceeds for mitigation purposes. The market price of the sale was approximately 2.6 times book value, based on year end 1997 books. As the Department stated in its Order approving the sale, the proceeds of the sale on the basis of dollars per kilowatt and on the basis of the ratio of sales price to book value compared favorably with other transactions.[(16)]

C. Entitlement Sale and Administrative Services Agreement with Select Energy

The entitlement sales transaction was entered into in order to divest the non-nuclear and nuclear generation assets jointly owned by FG&E in Wyman 4 and Millstone 3 respectively.[(17)]

The entitlement sales transaction resulted from the same competitive bid process approved by the Department in the Company's completed sale of its interest in New Haven Harbor Station. As FG&E negotiated with UI (for ultimate sale to Wisvest-Connecticut, L.L.C.), the Company commenced negotiations with Select Energy, Inc. for the sale of its remaining entitlements. On September 14, 1998, Select was chosen as the winning bidder and on May 17, 1999, FG&E entered into the Entitlement Sales and Administrative Services Agreement ("Entitlement Sales Agreement").

The Entitlement Sales Agreement is a "back-to-back" or mirror agreement. The relationships between FG&E and the various sellers under the purchase power agreements, and between FG&E and the other joint owners for the joint-owned units, remain intact and FG&E's Entitlement Sales Agreement with Select mirrors the obligations thereunder in all pertinent respects. In exchange for the capacity and energy provided by the entitlements, Select will pay to FG&E the costs that FG&E would otherwise bear for the purchase power agreements, Wyman 4 and Millstone 3. The relief of obligations is a direct source of mitigation for FG&E's customers.

Under the Entitlement Sales Agreement Select has agreed to pay a monthly amount in exchange for FG&E's entitlements to power. The monthly payment is called an Entitlement Sales Charge. The Entitlement Sales Charge is equal to the sum of all the costs under the Power Purchase Agreements plus the cost-of-service charges under the joint-owned units, minus an amount that is the above-market cost under the contract. The payment by Select of the Entitlement Sales Charge is a direct benefit to ratepayers. The above-market cost under the Entitlement Sales Charge is defined by the Select bid and further defined in the Entitlement Sales Agreement as the Retained Entitlement Obligation ("REO"). The REO works to compensate Select for the above-market nature of the entitlements. The REO is recovered from ratepayers. Under the Select transaction, FG&E maintains liability for environmental remediation associated with Millstone 3 and decommissioning. In addition, as part of the terms of the sale, FG&E agreed that Select would retain any proceeds from the final ownership sale of either Millstone 3 or Wyman 4.

In a separate agreement with the Attorney General, FG&E agreed to forego the mitigation incentive it would be entitled to as a result of the entitlement sale. This voluntary action further mitigated transition costs by $214,000.

The Department thoroughly reviewed both the process and the outcome resulting from the Select Entitlement Sales and Administrative Services Agreement and found both the divestiture methodology and the agreement resulting therefrom were consistent with the public interest. The Department approved the sale in December, 1998.[(18)]

D. Number 7 Turbine

FG&E operated the No. 7 turbine, a 1972 vintage 25 MW General Electric Frame Five combustion turbine, under a long-term lease for which the primary term ended in September, 1998. Consistent with the Company's restructuring plan, FG&E explored a number of mitigation alternatives, including sale of the turbine at the Sawyer Passway site. Ultimately, the Company determined that the optional strategy was to terminate the lease and the Company notified the lessor that it would let the lease expire at the end of the primary term. The No. 2 oil fired peaking unit was "returned" to the lessor who was subsequently able to find a buyer and had the unit removed from the Sawyer Passway site in early 1999. At the end of the lease term, the Company's obligation was to cut all connections clear and to cooperate with the lessor for the unit's removal, which obligations FG&E met. The site upon which the unit was located was not owned by the Company; thus there was no land salvage or resale value to the Company or its customers.

E. Millstone Settlement and Sale

As discussed above, in December, 1999, FG&E received approval from the Department for its entitlements sale to Select Energy. The Department approved the entitlements sale as a final divestiture of FG&E's assets, including its interest in Millstone 3. As part of this sale, FG&E retained its ability to recover the proceeds of any claims against the Connecticut Light and Power Company ("CL&P"), Western Massachusetts Electric Company ("WMECO"), and Northeast Utilities (hereafter referred to collectively as "NU") as a result of the earlier outages of Millstone Unit 3. In addition, FG&E agreed that any proceeds of the sale of its ownership interest in Millstone 3 would flow to Select, in consideration for Select's assumption of FG&E's purchase power contract obligations for the on-going costs associated with its generation entitlements, including Millstone 3. Select did not assume FG&E's ongoing liabilities for the decommissioning of Millstone 3.

After the sale of its entitlements to Select, FG&E entered into a settlement and release agreement (the "Settlement") with NU addressing the litigation and arbitration claims filed by FG&E against those companies for damages related to the shutdown of Millstone 3. Under the terms of the Settlement, NU agreed to include FG&E's minority interest in Millstone 3 in the auction process to be conducted under Connecticut law. Conn. Public Act 98-28. The Settlement provides that FG&E will receive, exclusively for its claims, certain fixed amounts both at the effective date of the Settlement and following the closing of the Millstone 3 sale. NU agreed to indemnify FG&E from any residual liabilities or costs resulting from the sale, including environmental liabilities and decommissioning liabilities.

The Settlement provided a number of significant benefits to FG&E's customers. First, under the terms of the Settlement, the proceeds to be realized by FG&E after the sale of the unit are designated as proceeds for settlement of its claims, rather than proceeds for sale of the unit. Accordingly, these amounts will all be retained by FG&E , rather than flowing to Select under the Entitlement Sales Agreement. Second, FG&E has already applied the initial payment of $600,000 made by NU for settlement of its claims, net of litigation expenses, to FG&E's variable cost component of its Transition Charge. The second payment of $334,587 will be applied through the Residual Value Credit to the Fixed Component of the Transition Charge following the close of the sale. Customers will receive the benefits of these payments, with interest applied, following the Department's approval of FG&E's December, 2000 annual reconciliation filing. Third, the Settlement caps FG&E's decommissioning costs by eliminating any further decommissioning funding above a preset level. This decommissioning funding cap will eliminate significant future amounts that would otherwise flow through the Variable Component of the Transition Charge. The elimination of these charges from the Transition Charge will result in estimated savings in the range of $800,000 over the life of the unit, assuming FG&E's current projected decommissioning funding requirement based on the existing site-specific cost estimate.

In addition, the Settlement provides several other benefits to FG&E and its customers. For example, NU will reimburse FG&E for any capital expenditures above certain preset levels. FG&E will also be reimbursed for fuel procurement expenditures that increase the net nuclear fuel account balances above the balance at the time of Settlement. The Settlement also requires NU to pay FG&E for every month that the closing of the sale takes place after April 1, 2001.

In September, 2000, FG&E and the other owners of Millstone 3 filed for approval from the Department of the sale of the unit to Dominion Resources, Inc., which sale was the result of an auction conducted by the Connecticut Department of Public Utility Control. On December 22, 2000, the Department approved the sale.[(19)]

F. Standard Offer Service

The Act requires that a distribution company provide a standard service transition rate for the period from March 1, 1998, to January 1, 2005, at prices and terms approved by the Department.[(20)] The Act requires that distribution companies purchase electricity for standard offer service after a competitive bid process. Id.

Pursuant to this mandate, FG&E was required to file tariffs to institute standard transition service, also known as Standard Offer Service, as part of its Plan. In order to acquire the power to provide standard offer service, FG&E used its own portfolio to provide standard offer service until the service was competitively bid pursuant to the Act. Cost mitigation was achieved for customers because through this method, all sales for resale were credited directly to customers as revenue received.

SOS was competitively bid in a blind auction with uninhibited access to information relevant to the bidding parties. Constellation Power Source was the winning bidder. FG&E was the first electric distribution company to transfer responsibility for wholesale provision of standard offer service to a third party supplier through a competitive bidding process. The results achieved by FG&E underscore the mitigation effect that competitive bidding has on wholesale provision of standard offer service supply. The contract with Constellation was made under particularly favorable terms and conditions and for the full term of the SOS period.

The SOS terms included, among other things, a fixed price trajectory for the wholesale cost of the service, along with a provision for a fuel index adjustment in the event that extraordinary increases in fuel took place during the period of provision of wholesale standard offer service. This latter "trigger" mechanism was used for the first time during the summer/fall of 2000 when, pursuant to the SOS contract, FG&E requested, and the Department implemented, a fuel index adjustment to recover extraordinary fuel price increases. The purpose of negotiating this mechanism from the outset was to discourage potential bidders from including in their bids a "risk premium" resulting from fuel price vagaries that could not be quantified out in time. With this mechanism in place, the Department and FG&E's customers could be sure that the price received for SOS service reflected the long-term market price of wholesale supply, as nearly as possible, mitigating the long-term effect of deferrals associated with the differential between the SOS price and the wholesale supply price for the service. In addition, because FG&E was able to securing wholesale SOS supply for the full term, FG&E was able to minimize transition cost deferrals.

The Department approved the standard offer service solicitation and supply contract with Constellation Power Source on January 15, 1999.[(21)]

IV. ONGOING AND POTENTIAL MITIGATION ACTIVITIES

A. Future Mitigation Strategies

As described above, FG&E has substantially completed the divestiture of its resource portfolio, in accordance with the requirements of the Restructuring Act. As it has in the past, FG&E will continue to explore all opportunities for mitigating its transition costs, while remaining focused on providing its customers with efficient and reliable distribution service. The recent volatility in fuel prices demonstrates the importance of consumer education and assistance programs, while the significant deferral balances resulting from restructuring points to the need for diligent financial management.

B. Securitization and Financing Alternatives

FG&E initiated a process in 2000 to explore the potential for securitizing portions of its transition costs through the issuance of electric Rate Reduction Bonds (RRBs) in accordance with m.G.L. c. 164, §§ 1G and 1H of the Act. The Restructuring Act establishes a statutory basis for issuing RRBs that result in net savings for customers. The Company met several times with the Massachusetts Development Finance Agency, the Massachusetts Health and Educational Facilities Authority (together the "Agencies") and other interested parties, and began working with the Agencies' investment banking advisor, Lehman Brothers, to explore the financial and economic viability of an RRB transaction.

An RRB transaction would allow the Company to securitize reimbursable transition cost amounts primarily related to: (1) the fixed component of the transition charge (which includes the net balance of Millstone 3, Wyman 4, New Haven Harbor Station, and the No. 7 Turbine unrecovered plant balances and related regulatory assets, and associated generation assets), (2) the buy-out payments and associated transaction costs related to the Entitlement Sale Agreement, and (3) the unrecovered deferred balance of transition costs, as of the date of issuance of the RRBs, in order to meet the required rate reduction under the Act. The estimated maximum principal amount of the RRBs was approximately $76 million, including transaction costs.

In order to securitize transition costs, FG&E would need to structure a transaction that produced net savings to its customers in accordance with the Act and obtain the Department's approval of the methodology for determining customer savings. The Company has explored a number of different transactional structures over the last several months, but has not identified a viable structure that would result in net savings to customers.

The principal reason for this adverse result is that the Company has not been able to negotiate an economic buyout with Select Energy to replace the remaining payment of the retained entitlement obligations ("REO") with a single liquidated payment, which would then be financed by the RRBs. The REO payment stream under the Company's agreement with Select Energy represents approximately 85% of its reimbursable transition costs and, as a result, would be an essential component of any securitization transaction. Savings would be achieved if the implicit discount rate agreed to by Select in the liquidated buyout exceeds the interest rate for the RRBs, and thereby reduces the net present value of payments made by customers. In addition to this strict economic evaluation, a one-time liquidated payment by FG&E to Select raises additional credit quality and performance issues about Select that would need to be properly addressed.

The Company continues to explore opportunities to achieve net savings to customers and further mitigate its transition costs through alternative financing mechanisms. However, given the relatively high transactional cost associated with financing transactions of this type, the Company believes that a restructuring of the Select Agreement and the Company's underlying purchase power contracts are a critical and necessary component of any financing transaction.

C. Litigation Claims

FG&E and ten other current or former Joint Owners of the Wyman 4 unit ("the Joint Owners") are pursuing arbitration claims against the former lead owner of the unit, Central Maine Power Company ("CMP"). CMP sold its lead interest to Florida Power & Light Company. The Joint Owners believe they have a claim against a portion of the proceeds that CMP received as a result of the sale. The Joint Owners assert claims pursuant to certain provisions of the Joint Ownership Agreement attributable to the common facilities and undeveloped portion of the Wyman site. Verrill & Dana LLP is acting as common counsel in the proceeding for the Joint Owners and are providing their services on a contingency fee basis, under which V&D will be paid a portion of the proceeds if the Joint Owners are successful in obtaining an award of damages. FG&E expects the proceeding to continue into 2001.

D. Adjustments to Depreciation Schedules

FG&E's Restructuring Plan, as well as that of the other utilities in the Commonwealth, balanced many issues and concerns regarding the level and timing of recovery of transition costs. In the Restructuring Plan, the unrecovered generation balances and related regulatory assets are scheduled to be recovered over a 12-year period ending in 2009 through the fixed component of the transition charge. Since the Fixed Component the transition charge currently represents less than 15% of the Company's Transition Costs, adjustments to depreciation schedules would have relatively minor impact on the overall level or recovery of Transition Stranded Costs and should be carefully balanced against the timing of the recovery of Transition Costs. At this time, the Company does not recommend a change to its transition charge-related depreciation schedule.

E. Low Income and Bill Mitigation Assistance Programs

FG&E recognizes the imperative that customers most in need of a universal service rate, such as FG&E's low-income rate ("LI Rate"), should be made aware of eligibility criteria and that such criteria should be readily available and easy to understand. This premise ensures maximum penetration of the program and rate objectives.

Customers of FG&E who are at or below 175% of the poverty level ($28,087 or less for a family of four) are entitled to receive a discounted rate on gas and/or electric service. Described below are initiatives undertaken by FG&E to maximize the number of qualifying customers who participate in these programs, thus easing the burden of bill payment. FG&E has developed an outreach and eligibility plan monitored by the Division of Energy Resources (DOER). In the sections that follow, FG&E discusses energy efficiency programs, budget billing and consumer education efforts which are also an integral component to reaching out to low income customers, and other customers in need of bill mitigation.

1. Agency Collaboration

FG&E is collaborating with state and local welfare agencies to reach customers who are eligible for the LI Rate program. This includes providing point-of-purchase material for agency opportunities for client education and meeting with agencies, along with providing fact sheets and applications for dissemination from agency centers. Point-of-purchase materials are available also at the walk-in payment center in Fitchburg.

Additionally on an annual basis, FG&E will create a computer or electronic file of all customers currently eligible for the LI Rate discount. The electronic file will be run against each welfare agency's main database, in order to isolate and correct discrepancies. The welfare agency will then mail to the identified customers ("LI Rate Customer") a card indicating the customer's eligibility for the discounted rate. The LI Rate Customer will also be furnished with concise, simple instructions explaining how to complete the card. The LI Rate Customer will then return the signed and completed card to FG&E. Upon receipt, FG&E will enroll the LI Rate Customer on the LI Rate discount. The ease and convenience of this method is intended to maximize customer awareness and participation.

2. Customer Service Training

All FG&E customer service personnel are fully trained relative to the intricacies of the Company's LI Rate. This specific training occurs as part of the 4-week formal training program undertaken by all customer service personnel. Reference materials are provided and regularly updated. A review of the training session, as it pertains to the LI Rate is held as needed, at a minimum twice each year. The Company recently conducted a special training session to review the LI Rate and distributed updated lists of agencies and contact numbers. Payment plans were also reviewed at this training session.

3. Outreach for Low Income Assistance and Energy Efficiency

The Company has formulated outreach plans to broaden customer awareness of eligibility for the LI Rate. A key component to the outreach plan is to reach eligible customers through distributing LI Rate applications to agencies and prominent locations within the service territory, such as city and town halls, libraries, health and welfare offices, senior centers, offices for housing assistance and schools, among others. In addition, the

Department should be aware that calls are made by trained customer service center personnel to qualifying low income customers explaining energy efficiency programs, and the Company is attempting to merge its information dissemination with housing agencies in the service territory in order to get further participation.

F. <u>Energy Efficiency Programs and Bill Mitigation</u>

FG&E's energy efficiency programs are critical to its customers' use of electricity in an efficient and cost-effective manner. FG&E recognizes that dissemination of information regarding energy efficiency and its benefits is a critical component in ensuring that customers pay the lowest reasonable cost for the electricity they need and use. Described in this section are FG&E's energy efficiency programs and the accompanying outreach programs intended to encourage all customers to take advantage of these important, cost-saving programs.

1. <u>FG&E Residential Energy Efficiency Program</u>

During the 2000 program year, the Residential Low-Income Energy Efficiency (LIEE) program was in place. It achieved all goals relative to standards set by the Department. Working with the Montachusett Opportunity Council (MOC) and Conservation Services Group (CSG), marketing was undertaken to all residential customers on the R-2 (residential) electric rate. During the year, a total of 418 residential housing units received services under the LIEE program, resulting in annualized savings of 287,712 kWh, and 51.13 kW. Of these participating households, 33 also received gas energy efficiency measures for annualized savings of 14,356 therms.

FG&E has projects on-going under this program at 130 additional low-income housing units that are expected to achieve annualized savings of 147,376 kWh, and 20 kW. Marketing will continue under the program and it is expected that all goals for the year will be reached.

FG&E also performs a Residential Electric Space Heat and General Use Energy Efficiency program (RSH). During the 2000 program year, 48 customers participated in this successful program achieving annualized energy savings of 108,400 kWh, and 6.8 kW.

Under the Residential Energy Conservation Service (ECS) program, 201 customers participated and received free in-home analyses of energy consumption and use, along with $30 dollars worth of energy-saving materials. In addition to the energy saving materials, participating customers received 524 energy efficient lighting products at a discounted price, achieving additional annualized energy savings of 38,817 kWh, and 9.55 kW, once in place.

All of these programs are active and FG&E will pursue the continuance and expansion of these important rate mitigation programs.

New for the 2001 program year is the merging of the RSH and ECS into the Fuel Neutral Reward Pilot (FNR) program. The FNR will offer energy conservation services to all customers of FG&E regardless of heating fuel. FG&E will ensure that all residential customers are notified of this important program through colorful and informative bill inserts and program mailers.

2. FG&E NEEP Collaborative Energy Efficiency Programs and Marketing

Furthering its efforts to educate consumers relative to the mitigation impact of conservation, FG&E participates in the Northeast Energy Efficiency Partnership (NEEP) and will continue to do so during the 2001 program year. Under this collaboration, the following programs are in place, with the following results. Under the Residential Tumblewash Program, the Company rebated 164 Tumblewash Washing Machines, saving FG&E participating customers both electricity and water. Under the Residential Lighting Collaborative, the Company rebated 981 lambs and 243 fixtures, resulting in lighting savings and energy efficiencies for participating customers.

An attractive, informative direct mail piece describing the Company's energy efficiency program was mailed to all residential customers in 2000, under the auspices of the Department. Also, newspaper advertisements were placed in local papers in FG&E's service territory promoting the U.S. Department of Energy's Energy Star Program. The Energy Star Program informs consumers of the standard energy ratings for home appliances. This encourages consumers, at the time of purchase, to be energy conscious and provides them with the opportunity to make purchasing decisions reflecting an energy efficient choice. Ultimately, lower in-home energy use and lower energy bills are the result.

All of these programs are expected to continue.

3. Outreach

FG&E has initiated an outreach program particularly for the winter moratorium months. Under this outreach program, designed particularly for bill mitigation, FG&E sends information packets to all residential customers who are not on the LI Rate discount program that may have difficulty keeping up with their bills. The information packet includes a list of social services agencies and telephone numbers. Also included in the information packet are details relative to setting up payment plans with the Company and text urging such customers in need to contact FG&E directly for payment assistance.

G. Budget Billing and Payment Plans

In order to assist customers in mitigating the impact of recent rate changes, the Company provides budget billing for all interested residential customers. The Budget Billing program allows customers with varying seasonal usage to spread out their payments equally over the entire year. The Budget Billing Program runs from September through August on an annual basis. Customers are actively informed of this program through a variety of methods, including Company bill inserts, notices and placards at the FG&E walk-in service center and payment office in Fitchburg, through customer service center personnel and on the Company's website. The Company is also implementing flexible payment plans to assist customers in reducing outstanding arrears.

H. Customer Education

Reaching customers early on in their relationship with the Company and maintaining lines of contact is an important part of the Company's workings within the community to ensure rate mitigation, where possible, is pursued. The Company has formulated a program to reach new customers, especially those on a discounted rate such as the LI Rate, with a welcome kit fulfillment program. After a customer has initiated service, the Company mails a "welcome kit" to the customer. The kit includes rate information, bill explanations, safety information, energy conservation program participation information and information about the Commonwealth's efforts to restructure the electric industry.

The Company is able to reach customers consistently and effectively through bill inserts. Each February, May, August and October, the Company prepares and mails information about the LI Rate discount program and other important news in the customer newsletter that is included as a bill insert. The bill insert reaches 31,000 FG&E customers. The newsletter provides, on a regular basis, articles relative to the accessibility of the Company's Budget Billing program, Energy Efficiency programs and how to contribute to, or apply for assistance from, the Good Neighbor Energy Fund. The Good Neighbor Energy Fund provides fuel assistance to those who cannot and do not qualify for other types of fuel assistance programs. The newsletter also provides easily implemented, and easy-to-understand energy savings tips. Customer surveys undertaken by FG&E to measure customer reaction to the newsletter indicates that customers appreciate the Company's efforts in this area.

Information provided to customers relative to rate changes is closely scrutinized by the Department, and a multi-pronged approach is used by the Company to disseminate information on rate changes with as much lead time as possible. Lead time permits consumers to make changes in consumption behavior. Press releases are issued at the time of rate filings indicating typical expected bill impacts and the date of the proposed increases. The Company also notifies community, political and business leaders with the information for their feedback.

As appropriate, FG&E collaborates with the other utilities on bill insert notifications. These inserts receive final approval from the DTE. The Company also flags the rate increase on the customer bills with a bill message.

As further efforts to maintain continuing contact with communities and community leaders in order to ensure exchange of pertinent information, FG&E also participates with Unitil in a stakeholder management program which identifies key community and business leaders and matches them with an FG&E/Unitil contact person. These relationships allow for strong dialogue and information flow on a variety of issues including rates, reliability, operations, economic growth and other relevant topics. The Company is expanding this program to include more rate-focused information dissemination and discussion.

Finally, in December 2000 and January 2001, the Company began running newspaper ads and radio spots on energy prices, conservation tips (*10 Easy Ways To Lower Your Energy Bills*!), payment options, low income and energy efficiency programs. At the end of December 2000, the Company posted on its website a *"Winter Energy Survival Guide*," accessible from the home page of www.unitil.com. Content of this informative page includes detail and contact information on budget billing, energy efficiency programs. fuel assistance programs, and conservation.

V. RATEPAYER PARITY TRUST FUND

The Department has asked each distribution company to discuss "whether the Department can or should consider use of the Ratepayer Parity Trust Fund," established under G.L. c. 10, sec. 62. As explained below in light of the Department's determination that the Restructuring Act's requirement for a 15 percent rate reduction is exclusive of substantial changes in the cost of fuel, it does not appear that the Ratepayer Parity Trust Act is applicable.

Section 62 of chapter 10 establishes a Ratepayer Parity Trust which is to be funded by the personal and corporate tax revenues attributable to the sale of assets under chapter 164, section 1A, as well as all penalties and fines collected under sections 1A through 1H of chapter 164. Such funds are to be used "solely for the purposes of providing extraordinary assistance in achieving the required rate reductions" provided for under chapter 164, section 1A to 1H, subject to appropriation by the general court. Prior to any appropriation being made under chapter 10, section 62, the Department must file a request with the Secretary of Administration and Finance for distribution of such monies.

In its December 4, 2000 letter order the Department considered, for the first time since passage of the Restructuring Act, whether fuel costs should be treated differently in the standard offer rate evaluations.[(22)] Traditionally, the Department has always treated fuel costs as distinct from other costs because of the significant volatility in fuel prices. The Department found that the ongoing rapid changes in fuel prices made it necessary to continue treating such costs separately and that such treatment was consistent with the Restructuring Act and the Department's traditional treatment of fuel costs.[(23)]

Based upon the above stated analysis, the Department concluded that FG&E and the other distribution companies continued to meet the mandated rate reduction requirements of the Restructuring Act, even after implementation of the stranded offer service fuel adjustment.[(24)] Because the general court has narrowly limited use of the Ratepayer Parity Trust to provide assistance in achieving the rate reductions required by the Restructuring

Act, use of such funds at this time would not be consistent with plain meaning of the statute.

IV. CONCLUSION

Fitchburg Gas and Electric Light Company appreciates this opportunity to discuss and review the broad extent of its rate mitigation efforts within it distribution service territory.

(B67460)

1.

[1] G.L. c. 164, sec. 1G(d)(1).

2.

[2] See e.g. Fitchburg Gas and Elec. Light Co., D.P.U./D.T.E. 97-115, Fitchburg Gas and Elec. Light Co., D.T.E. 98-121 and Fitchburg Gas and Elec. Light Co., D.T.E. 99-58.

3.

[3] See Exhibit A, D.P.U. 89-66 (1992) (approving merger between FG&E and Unitil).

4.

[4] See Exhibit B, Summary of FG&E Resource Portfolio from FG&E Electric Restructuring Plan (12/31/97).

5.

[5] See Exhibit C, (D.P.U. orders approving FG&E's long-term supply contracts).

6.

[6] See Fitchburg Gas and Electric Light Company, D.P.U. 92-181 (1993).

7.

[7] See Exhibit D (Fitchburg Gas and Electric Light Co., D.P.U. 85-235 (1985)).

8.

[8] See Fitchburg Gas and Elec. Light Co., D.P.U. 97-115/98-120 (1999).

9.

[9] See Fitchburg Gas and Electric Light Company, D.P.U. 93-186-A (1993)

10.

[10] See Exhibit E (D.P.U. 95-75, (November 30, 1995)(order approving Energy Bank Service).

11.

[11] See Exhibit F, FG&E's Electric Restructuring Plan (Tab D) and Description of the Asset Divestiture Process (Tab J-2) (12-31-97).

12.

[12] See Exhibit L, Report of Independent Public Accountants (8-25-99).

13.

[13] See Exhibit F, Restructuring Plan, Section III, p1.

14.

[14] See Exhibit F, Restructuring Plan, Section III, p2.

15.

[15] See Exhibit G, D.T.E. 97-115 (initial approval of FG&E restructuring plan) (2/26/98); Exhibit H, D.T.E. 97-115/98-120 (final approval of FG&E's restructuring plan and standard offer service supply).

16.

[16] See Exhibit I, D.T.E. 98-121 (3-31-99).

17. [17] FG&E's ownership in Wyman 4 is jointly held by FG&E with FPL Energy (having succeeded Central Maine Power Company in ownership), Bangor-Hydro Electric Company, Maine Public Service Company, Sithe New England (having succeeded Boston Edison Company), Montaup Electric Company and Newport Electric Corporation, Public Service Company of New Hampshire, and Vermont Electric Power Company.

18.

[18] See Exhibit J, D.T.E. 99-58 (1999)

19.

[19] See Exhibit K, D.T.E. 00-68 (12/21/00).

20.

[20] See G.L. c. 164, s. 1B(b).

21.

[21] See Exhibit H, D.T.E. 97-115 and 98-120 (1-15-99) (approving FG&E's Restructuring Plan and Standard offer service contract with Constellation Power).

22.

[22] D.T.E. 00-66, 00-67, 00-70, Letter Order, p. 8 (12-4-00).

23.

[23] Id. at 9

24.

[24] Id. at 3.